Report for: INFORMATION
Item Number: 6

The Royal Borough
Windsor & Maidenhead

Contains Confidential or Exempt Information	NO - Part I
Title	Review of Annual Report and Accounts 2014-15 and External Audit Report
Responsible Officer(s)	Kevin Taylor
Contact officer, job title and phone number	Kevin Taylor Deputy Pension Fund Manager 01628 796715
Member reporting	n/a
For Consideration By	Berkshire Pension Fund Board
Date to be Considered	26 November 2015
Implementation Date if Not Called In	n/a
Affected Wards	None
Keywords/Index	*Insert relevant key words*

Report Summary

The purpose of this report is to review the Pension Fund's Annual Report and Accounts for the financial year 2014-15. In addition the external auditor's report presented to the Audit and Performance Panel in September and auditor's statement dated 5 November 2015 are attached to the report.

If recommendations are adopted, how will residents, fund members and other stakeholders benefit?	
Benefits to residents, fund members and other stakeholders and reasons why they will benefit	Dates by which they can expect to notice a difference
1. Better governance and administration of the Pension Fund	Ongoing

1. Details of Recommendations

Members of the Pension Board are required to review the Pension Fund's Annual Report and Accounts and all audit reports published on behalf of the Fund's Governance and administration of the Scheme.

RECOMMENDATION: That the Board note both the Annual Report and Accounts and the external auditor's report and consider any comments to feedback to the Scheme Manager.

2. Reason for Recommendation(s) and Options Considered

Pension Board members have a statutory duty to ensure that the Scheme Manager is managing the Pension Fund in accordance with LGPS regulations and the associated legislation and the requirements of the Pensions Regulator. The Scheme Manager has a statutory obligation under Regulation 57 of the LGPS regulations 2013 (as amended) to prepare and publish a Pension Fund annual report and so members of the Board will want to assure themselves that the Scheme Manager has fulfilled its statutory duty in publishing a report that meets the requirements set out in that regulation.

3. Key Implications

Failure by the Scheme Manager to operate within the statutory requirements of the Scheme could leave the Borough open to challenge.

4. Financial Details

Members of the Pension Board will want to assure themselves that the Pension Fund accounts are accurate and that have been appropriately audited.

5. Legal Implications

There are no legal implications.

6. Value For Money

Not applicable.

7. Sustainability Impact Appraisal

There are no known implications.

8. Risk Management

Not applicable.

9. Links to Strategic Objectives

Not applicable.

10. Equalities, Human Rights and Community Cohesion

There are no known implications.

11. Staffing/Workforce and Accommodation implications:

None.

12. Property and Assets

None.

13. Any other implications:

None.

14. Consultation

Not applicable.

15. Timetable for Implementation

Not applicable.

16. Appendices

The following documents are attached to this report:

- Annual Report and Accounts 2014-15
- Independent auditor's statement
- Audit report dated September 2015

17. Background Information

None

Full name of report author	Job title	Full contact no:
Kevin Taylor	Deputy Pension Fund Manager	01628 796715

Independent auditor's report to the members of the Royal Borough of Windsor & Maidenhead on the pension fund financial statements published with the pension fund annual report

We have examined the pension fund financial statements for the year ended 31 March 2015 on pages 29 to 48.

Respective responsibilities of the Head of Finance and the auditor

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of the Royal Borough of Windsor & Maidenhead, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

In addition, we read the information given in the Pension Fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of the Royal Borough of Windsor & Maidenhead for the year ended 31 March 2015 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Matters on which we are required to report by exception

The Code of Audit Practice for Local Government Bodies 2010 requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

Darren Gilbert
for and on behalf of KPMG LLP, Appointed Auditor
Chartered Accountants
100 Temple Street
Bristol
BS1 6AG
5 November 2015

KPMG

cutting through complexity

Report to those charged with governance (ISA 260) 2014/15

Royal Borough of Windsor & Maidenhead

September 2015

Contents

The contacts at KPMG in connection with this report are:

Darren Gilbert
Director
KPMG LLP (UK)

Tel: 02920 468205
darren.gilbert@kpmg.co.uk

Duncan Laird
Manager
KPMG LLP (UK)

Tel: 0117 905 4253
duncan.laird@kpmg.co.uk

Hashem Alawi
Assistant Manager
KPMG LLP (UK)

Tel: 0207 694 8428
hashem.alawi@kpmg.co.uk

Introduction

This document summarises:

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2015 for both the Authority and its pension fund; and**
- **our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at the Royal Borough of Windsor & Maidenhead ('the Authority') in relation to the Authority's 2014/15 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- the work to support our 2014/15 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2014/15*, presented to you in March 2015, set out the four stages of our financial statements audit process.

We previously reported on our work on the first two stages in our *Interim Audit Letter 2014/15* issued in June 2015.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July and August 2015.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our *External Audit Plan 2014/15* explained our risk-based approach to VFM work. We have now completed the work to support our 2014/15 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2014/15 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

We have also reviewed your progress in implementing prior recommendations and are pleased to report that all prior year recommendations have been fully implemented.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2015. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007. We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2015. We are currently in correspondence with a local elector who has raised a query on the accounts. We are working with the Council to resolve this and currently do not anticipate a delay to either the opinion or the certificate. Should we need to undertake work on this that cannot be resolved by the 30 September deadline, then we will need to defer issuing the audit certificate at that point in time.
Audit adjustments	We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14 ('the Code')*. The Authority has addressed these where significant.
Key financial statements audit risks	We identified the following key financial statements audit risk for the Authority in our 14/15 External Audit plan issued in March 2015: - Accounting for Local Authority Maintained Schools – Recently issued guidance on the accounting requirements for school assets (LAAP Bulletin 101) requires the Authority to assess the control arrangements in relation to Voluntary Aided, Voluntary Controlled, and Foundation schools in order to determine whether the schools' assets should be recognised on the Authority's balance sheet. This may require changes to the schools recognised on the Council's balance sheet. We have worked with officers throughout the year to discuss this key risk and our detailed findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in this area.
Key financial statements audit risks for the Pension Fund	We identified the following key financial statements audit risks for the Pension Fund in our 14/15 External Audit plan issued in March 2015: - LGPS reform – From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members. - Longevity insurance policy – The Pension Fund has an insurance policy that increases in value as life expectancy of Fund members increases. Valuation of this policy is complicated and requires application of judgement. We have worked with officers throughout the year to discuss this key risk and our detailed findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas.

Headlines

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

Accounts production and audit process	The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Authority has implemented all of the recommendations in our *ISA 260 Report 2013/14* relating to the financial statements.
Completion	At the date of this report our audit of the financial statements is substantially complete, subject to final review processes and clearance of a small number of queries and tasks. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion and risk areas	We identified the following VFM risks in our External audit plan 2014/15 issued in March 2015. ▪ Achievement of the savings plan. We have worked with officers throughout the year to discuss this VFM risk and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in this VFM risk area. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2015.

Financial Statements
Proposed opinion and audit differences

We have not identified any issues in the course of the audit that are considered to be material.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit & Performance Review Panel on 8 September 2015.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 3 for more information on materiality) level for this year's audit was set at £5.7 million. Audit differences below £285k are not considered significant.

We did not identify any material misstatements. We identified a small number of issues that have been adjusted by management.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ('the Code')*. We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

KPMG

Financial Statements
Proposed opinion and audit differences (continued)

We have identified no issues in the course of the audit of the Fund that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2015.

Pension fund audit

Our audit of the Fund also did not identify any material misstatements.

For the audit of the Fund we used a materiality level of £31 million. Audit differences below £1.5 million are not considered significant.

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit & Performance Review Panel on 8 September 2015.

Pension Fund Annual Report

At the time of drafting this report, the Pension Fund Annual Report has not yet been finalised and we are yet to confirm that the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

The statutory deadline for publishing the document is 1 December 2015. We will need to complete additional work in respect of subsequent events to cover the period between signing our opinions on the Statement of Accounts and the Pension Fund Annual Report.

Financial Statements
Significant risks and key areas of audit focus

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus

This section sets out our detailed findings on those risks

In our *External Audit Plan 2014/15*, presented to you in March 2015, we identified the significant risks affecting the Authority and the Fund's 2014/15 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority and the Fund.

Significant audit risk	Issue	Findings
Accounting for LA maintained schools	LAAP Bulletin 101 *Accounting for School Assets used by Local Authority Maintained Schools* issued in December 2014 has been published to assist practitioners with the application of the Code in this respect. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools. Authorities will need to review the agreements under which assets are used by VA/VC and Foundation schools and apply the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. This is a key area of judgement and there is a risk that Authorities could incorrectly omit school assets from, or include school assets in, their balance sheet. Particular risks surround the recognition of Foundation School assets which may or may not be held in Trust. Authorities should pay particular attention to the nature of the relationship between the Trustees and the school governing body to determine whether the school controls the Trust and the assets should therefore be consolidated into their balance sheet. This risk affects only the Authority.	As part of our audit, we have reviewed the Authority's approach to accounting for LA maintained schools, including: - Determining whether the Authority has identified all relevant maintained schools within its area and undertaken a review of the agreements underpinning the use of school assets by VA, VC and Foundation schools; - Considering the Authority's application of the relevant accounting standards to account for these schools and challenging its judgements where necessary; and - Determining whether the basis of valuation of assets which are brought on balance sheet at 1 April 2013 is appropriate and the valuations are undertaken by qualified valuers (if applicable). Our review confirmed that the Authority has considered the appropriate accounting treatment on a school-by-school basis and has followed the relevant guidance. No issues were identified.

Financial Statements
Significant risks and key areas of audit focus (continued)

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus

This section sets out our detailed findings on those risks

Significant audit risk	Issue	Findings
LGPS reform	From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members. While any errors in the system are unlikely to result in material misstatements in 14/15, the possible cumulative effect in future years means that specific audit work is needed on ensuring that the changes required to the system have been accurately reflected. This risk affects only the Fund.	We have reviewed the controls and processes that the Pension Fund has put in place to accurately capture the data required by LGPS 2014 and have not identified any issues. We have also tested a sample of new pensioners in the year and confirmed that the system has been set up to accurately calculate benefit entitlement under the new career average arrangements.
Longevity insurance policy	The Pension Fund has in place a longevity insurance policy with ReAssure Ltd to cover a closed group of pensioner members. The Pension Fund pays the policy an annual fixed premium where in return the insurer pays out benefits to the pensioners. The contract is recognised as an asset on the Pension Funds' Net Asset Statement and increases in value if the life expectancy of Fund members increases. Therefore, the contract must be kept under regular review to ensure its valuation and disclosure are in accordance with accounting standards. This risk affects only the Fund.	As part of our audit procedures, we have reviewed the Barnett Waddingham valuation of the longevity contract, which is used in the compilation of the accounts. Additional work was required this year to factor in the impact of the transfer of Probation Service staff to the Greater Manchester Pension Scheme. We concluded that the valuation of the longevity liability for the year was consistent with our expectations and any uncertainty was well within acceptable tolerances.

Financial Statements

Significant risks and key areas of audit focus (continued)

In our *External Audit Plan 2014/15* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk		Summary of findings
Management override of controls	Audit areas affected ■ All areas	Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit. In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. There are no matters arising from this work that we need to bring to your attention.
Fraud risk of revenue recognition	Audit areas affected ■ None	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In our External Audit Plan 2014/15 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue. This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Financial Statements
Significant risks and key areas of audit focus (continued)

In our *External Audit Plan 2014/15*, presented to you in March 2015, we identified one area of audit focus. This is not considered as a significant risk but an area of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for the area of audit focus identified.

Areas of audit focus	Issue	Findings
	From 1 April 2015, the Pensions Regulator is responsible for regulating the governance and administration of public service pension schemes, which includes the Local Government Pension Scheme. The pension scheme must comply with a number of legal requirements, such as the establishment of a pension board with an equal number of employer representatives and member representatives. Pension board members for a public service pension scheme must also meet certain legal requirements that relate to their knowledge and understanding. This risk affects only the Fund.	The Pension Board has been established and has held its first meeting. Work has been completed to ensure the composition is compliant with the requirements of the Pensions Regulator. The Pension Board sits alongside the Berkshire Pension Fund Panel and Pension Fund Advisory Panel in an oversight role. Its role is to review the governance arrangements of the Fund and ensure policies and procedures are correctly implemented and followed.

Financial Statements
Accounts production and audit process

The Authority has a well established and good accounts production process. This operated well in 2014/15, and the standard of accounts and supporting working papers was high.

Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority continues to maintain a good financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2015. The Authority have made a small number of presentational changes to the accounts presented for audit however there have been no changes which we consider to be fundamental.
Quality of supporting working papers	We issued our *Accounts Audit Protocol* including our required working papers for the audit on 22 June 2015. The quality of working papers provided was high and fully met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved all audit queries in a timely manner.

Element	Commentary
Pension Fund Audit	The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last year's ISA 260 report.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2013/14*.

Financial Statements Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of the Royal Borough of Windsor & Maidenhead and the Royal County of Berkshire Pension Fund for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and the Royal Borough of Windsor & Maidenhead and the Royal Berkshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Head of Finance for presentation to the Audit & Performance Review Panel. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

We are currently in correspondence with a local elector who has raised a query on the accounts. We are working with the Council to resolve this and currently do not anticipate a delay to either the opinion or the certificate. However, should we need to undertake work on this that cannot be resolved by the 30 September deadline, then we will need to defer issuing the audit certificate at that point in time.

There are no other matters to bring to your attention.

VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Work completed

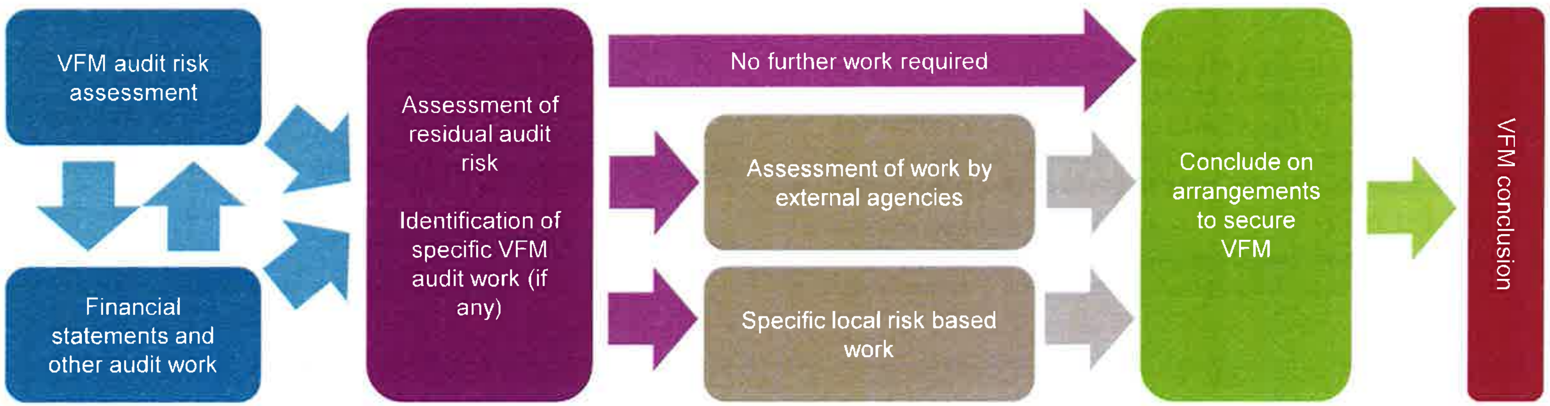
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

The following page includes further details of our VFM risk assessment and our specific risk-based work.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓



Specific VFM risks

Our planning procedures identified a residual VFM risk that required us to undertake specific work.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- completed specific local risk based work.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we needed to carry out additional work on this risk. This work is now complete and we report on this below.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Achievement of the savings plan	The Authority set a savings target of £6.3m in 2014/15. At the time of our risk assessment, the latest monitoring reports showed that the Authority was forecasting a £100k overspend on services at year end. The final outturn was a £238k underspend at year end. The Authority planned to implement savings originally earmarked for 2015/16 in 2014/15 where possible to mitigate the financial pressures. Further significant savings will be required in 2016/17 and 2017/18 to principally address future reductions to local authority funding alongside service cost and demand pressures. There may be a risk that the authority's financial resilience could be impacted if it was not able to continue to identify savings and efficiencies and deliver its agreed budgets. This is relevant to the financial resilience criteria of the VFM conclusion.	We have reviewed the Medium Term Financial Plan (MTFP) covering the next four years and considered whether the assumptions it is based on, including funding announcements, cost inflations and savings targets, are reasonable and appropriate. The annual budget reflects the 2.1% cut to council tax that was approved by Council in February. This is the sixth successive year that council tax has been reduced. The MTFP assumes that income from Central Government is set to reduce year-on-year in the medium term. The Authority has a good track record of meeting its savings targets, as reflected by the consistent reduction in council tax. Financial risks associated with annual budget and MTFP are recorded and monitored in the risk register. We have concluded that the MTFP is based on appropriate assumptions and savings plans are achievable.

Appendix 1: Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

There is no net impact on the General Fund as a result of the amendments.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit & Performance Review Panel). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Corrected audit differences

Our audit identified a small number of disclosure errors in the financial statements. These have been discussed with management and the financial statements have been amended for all of them.

KPMG

Appendix 2: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Authority.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the *Code of Audit Practice* (the 'Code') which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit & Performance Review Panel.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 2: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of the Royal Borough of Windsor & Maidenhead and the Royal County of Berkshire Pension Fund for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and the Royal Borough of Windsor & Maidenhead and the Royal County of Berkshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix 3: Materiality and reporting of audit differences

For 2014/15, our materiality is £5.7 million for the Authority's accounts. For the Pension Fund it is £31 million.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We reassessed materiality for the Authority at the start of the final accounts audit based on the figures in the financial statements presented for audit.

Materiality for the Authority's accounts was set at £5.7 million which equates to around 2 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit & Performance Review Panel

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit & Performance Review Panel any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £285k for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit & Performance Review Panel to assist it in fulfilling its governance responsibilities.

Materiality – pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £31 million which is approximately 2 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £1.5 million for 2014/15.

Appendix 4: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

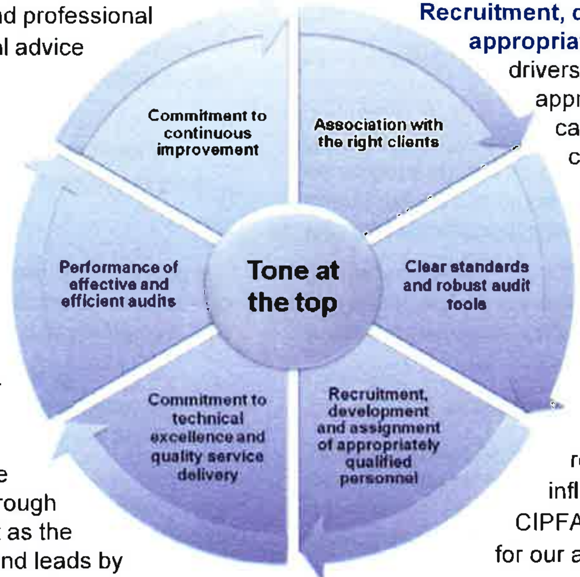
KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.



Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Darren Gilbert as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

Appendix 4: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (http://www.psaa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/).

The latest Annual Regulatory Compliance and Quality Report (issued June 2015) showed that we are meeting the overall audit quality and regulatory compliance requirements.

cutting through complexity™